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WAC 458-20-257 WARRANTIES AND MAINTENANCE AGREEMENTS.

~~(1) DEFINITIONS. For the purposes of this section, the following terms will apply:~~

~~(a) Warranties. Warranties, sometimes referred to as guarantees, are agreements which call for the replacement or repair of tangible personal property with no additional charge for parts or labor, or both, based upon the happening of some unforeseen occurrence, e.g., the property needs repair within the warranty period.~~

~~(b) Warrantor. The warrantor is the person obligated, as specified in the warranty agreement, to perform labor and/or provide materials to the owner of the personal property to which the warranty agreement relates.~~

~~(c) Maintenance agreements. Maintenance agreements sometimes referred to as service contracts, are agreements which require the specific performance of repairing, cleaning, altering, or improving of tangible personal property on a regular or irregular basis to ensure its continued satisfactory operation.~~

~~(2) B&O TAX.~~

~~(a) Manufacturer's warranties included in the retail selling price of the article being sold.~~

~~(i) When a manufacturer's warranty is included in the retail selling price of the property sold and no additional charge is made, the value of the warranty is a part of the selling price. The value of the warranty is included in the "gross proceeds of sale" of the article sold and reported under the appropriate classification, e.g. retailing, wholesaling, etc.~~

~~(ii) When a repair is made by the manufacturer warrantor under the warranty, the value of the labor and or parts provided are not subject to B&O tax.~~

~~(iii) When a person other than the manufacturer warrantor makes a repair for the manufacturer warrantor, the person making the repair is making a wholesale sale of the repair service to the manufacturer warrantor. The person doing the repair is B&O taxable under the wholesaling classification on the value of the parts and labor provided.~~

~~(b) Nonmanufacturer's warranties and manufacturer's warranties not included in the retail selling price of the article being sold.~~

~~(i) When a warranty is sold for a charge separate from the charge of the product, e.g., a warranty extending the manufacturer's warranty, the charge is reported in the service and other activities classification of the B&O tax.~~

~~(ii) When a repair is made by the warrantor under a separately stated warranty, the value of the labor and or parts provided are not subject to B&O tax.~~

~~(iii) When a person other than the warrantor makes a repair for the warrantor, the person making the repair is making a retail sale of the repair service to the warrantor. The person making the repair is B&O taxable under the retailing classification.~~

~~(c) Maintenance agreements.~~

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~~(i) Maintenance agreements (service contracts) require the periodic specific performance of inspecting, cleaning, physical servicing, altering, and/or improving of tangible personal property. Charges for maintenance agreements are retail sales, subject to retailing B&O tax and retail sales tax under all circumstances.~~

~~(d) Amounts received as a commission or other consideration for selling a warranty or maintenance agreement of a third-party warrantor or provider are generally subject to B&O tax under the service and other activities classification. However, if the seller of the warranty is licensed under chapter 48.17 RCW with respect to this selling activity, the commission is subject to B&O tax under the insurance agent classification.~~

~~(e) In the event a warrantor purchases an insurance policy to cover the warranty, amounts received by the warrantor under the insurance policy are insurance claim reimbursements not subject to B&O tax.~~

### ~~(3) RETAIL SALES TAX.~~

~~(a) Manufacturer's warranties included in the retail selling price of the article being sold.~~

~~(i) When a manufacturer's warranty is included in the retail selling price of the property sold and no additional or separate charge is made, the value of the warranty is a part of the selling price and retail sales tax applies to the entire selling price of the article being sold.~~

~~(ii) When a repair is made by the manufacturer-warrantor under the warranty, the repair performed is not a retail sale and no retail sales tax is collected.~~

~~(iii) When a person other than the manufacturer-warrantor makes a repair for the manufacturer-warrantor, the person making the repair is making a wholesale sale of the repair service to the manufacturer-warrantor. No retail sales tax is collected from the manufacturer-warrantor.~~

~~(b) Nonmanufacturer's warranties and manufacturer's warranties not included in the retail selling price of the article being sold.~~

~~(i) When a warranty is sold for a charge separate from the charge of the product, e.g., a warranty extending the manufacturer's warranty, the sale is not a retail sale and no retail sales tax is collected on the amount charged.~~

~~(ii) When a repair is made by the warrantor under its own separately stated warranty, the value of the labor and/or parts provided is not a retail sale and no retail sales tax is collected.~~

~~(iii) When a person other than the warrantor makes a repair for the warrantor, the person making the repair is making a retail sale of the repair service to the warrantor. Retail sales tax is collected from the warrantor measured by the labor and materials provided.~~

~~(c) Maintenance agreements are sales at retail and subject to retail sales tax under all circumstances.~~

~~(i) Parties subcontracting to the party selling the maintenance agreement are making sales at wholesale, and are required to take from their customer (maintenance seller) a resale certificate as provided in WAC 458-20-102.~~

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~~(4) USE TAX.~~

~~(a) Manufacturer's warranties included in the retail selling price of the article being sold.~~

~~(i) When a manufacturer warrantor makes repairs required under its warranty, the value of the parts used in making the repairs is not subject to use tax.~~

~~(ii) Where a third party makes repairs for a manufacturer warrantor, the transaction is a wholesale sale and the parts used in the repair are not subject to use tax.~~

~~(b) Nonmanufacturer's warranties and manufacturer's warranties not included in the retail selling price of the article being sold.~~

~~(i) When a repair is made by the warrantor under a separately stated warranty, the warrantor is the consumer of the parts and the parts are subject to use tax measured by the warrantor's cost.~~

~~(ii) When a person other than the warrantor makes a repair for the warrantor, the person making the repair is making a retail sale to the warrantor. Retail sales tax, not use tax, is collected.~~

~~(c) Maintenance agreements.~~

~~(i) Persons performing services under the requirements of maintenance agreements sold by them, are not subject to use tax or retail sales tax on materials which become a part of the required repairs or services.~~

~~(5) ADDITIONAL SERVICE – DEDUCTIBLE. In the event services are provided in addition to any warranty or maintenance agreement, such services are separately taxable as retail sales, subject to retail sales tax and retailing B&O tax. This includes so-called "deductible" amounts not covered by a warranty or maintenance agreement.~~

~~(6) MIXED AGREEMENTS. If an agreement contains warranty provisions but also requires the actual specific performance of inspection, cleaning, servicing, altering, or improving the property on a regular or irregular basis, without regard to the operating condition of the property, such agreements are fully taxable as maintenance agreements, not warranties.~~

~~(7) EXAMPLES:~~

~~(a) An automobile dealer sells a vehicle to a customer for selling price of \$15,000 cash and the selling price includes a manufacturer's limited warranty for 5 years or 50,000 miles. The owner of the vehicle has \$600 (\$200 parts and \$400 labor) warranty work, paying no deductible, performed by the dealer who is not the manufacturer warrantor. The tax liability of the dealer is as follows:~~

~~(i) Retail sales tax is collected on the \$15,000 selling price.~~

~~(ii) The \$15,000 selling price is reported under the retailing B&O tax classification. The \$600 repair is reported under the wholesaling B&O tax classification.~~

~~(iii) The \$200 of parts used in the repair are not subject to use tax.~~

~~(b) The automobile dealer in example (a) also sells its own extended warranty to the customer for \$200. The dealer insures itself with an insurance carrier and under~~

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~~the policy, claims are paid on the retail value of the repairs. In addition to the repairs in example (a), the customer has the dealer complete \$500 of repairs under the dealer's extended warranty. The customer paid the \$100 deductible and the dealer received \$400 from his insurance carrier. In completing the repair, the dealer installed parts from its inventory which had a cost to the dealer of \$150 and subcontracted part of the repair to an electrical shop which charged the dealer \$200. The tax liability to the dealer and the subcontractor are as follows:~~

~~(i) The dealer reports the \$200 sale of the warranty under the service and other activities classification of B&O tax. No retail sales tax is collected on the sale.~~

~~(ii) The \$100 deductible received by the dealer is a retail sale subject to retail sales tax and retailing B&O tax.~~

~~(iii) The \$400 received by the dealer from the insurance company is a nontaxable insurance claim reimbursement.~~

~~(iv) The dealer is the consumer of the parts removed from its inventory and used in the repair. The \$150 dealer cost of the parts taken from inventory is subject to use tax.~~

~~(v) The subcontractor is making a retail sale to the dealer subject to retail sales tax and retailing B&O.~~

(1) **Introduction.** This section explains the business and occupation (B&O), retail sales, and use tax reporting responsibilities of persons selling and/or performing services under warranties or maintenance agreements. Chapter 514, Laws of 2005, sections 101 through 112, changed the tax consequences for extended warranties by classifying the sale of an extended warranty as a retail sale. This change did not affect the taxability of maintenance agreements and warranties for which no separate charge is made (for example manufacturers' warranties). This change in law is effective July 1, 2005.

This section provides a number of examples. The examples state a conclusion based on the specific facts presented. The examples should be used only as a general guide. The tax results of other situations must be determined after a review of all of the facts and circumstances.

(2) **Definitions.** For the purposes of this section, the following definitions apply:

(a) **Warranty.** A warranty is an agreement that, based on the occurrence of specified events, provides for:

(i) The replacement or repair of tangible personal property at no additional charge or a reduced charge for tangible personal property, labor, or both; or

(ii) Indemnification for the replacement or repair of tangible personal property.

(b) **Extended warranty.** An extended warranty is a warranty for a specific duration for which a separate charge is made.

(c) **Warrantor.** A warrantor is a person obligated, as specified in the warranty agreement, to perform warranty services.

(d) **Warranty Services.** Warranty services include the labor and services to repair or replace tangible personal property pursuant to a warranty and also include any tangible personal property that is incorporated into the property being repaired.

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(e) **Maintenance agreements.** Maintenance agreements are agreements which require the maintenance provider to perform specific repairing, cleaning, altering, or improving of tangible personal property for continued satisfactory operation. These services may be performed on a regular or irregular basis. For the purposes of this section, if an agreement has both warranty provisions and maintenance agreement provisions, the agreement is a maintenance agreement.

(f) **Separate charge.** A separate charge is made when the customer agrees to pay an additional amount for an extended warranty or maintenance agreement, regardless of whether that separate charge is specifically identified on the actual invoice given to the customer.

(g) **Reduced Charge.** A reduced charge is the amount paid, in addition to the purchase price of the warranty or maintenance agreement, to receive specific warranty services under any warranty or specific maintenance services under a maintenance agreement.

(3) **Tax Application Principles.** The following tax application principles apply to services performed under warranties and maintenance agreements.

(a) If a warrantor contracts with a third party to perform warranty services, then the total consideration received by the third party is treated as being paid by the warrantor, regardless of whether the third party receives any payment from the person ordering the warranty services.

(b) Reduced charges are considered payment from the customer to the warrantor regardless of whether an intermediary is involved.

(c) Insurance agent B&O tax classification. A license to sell insurance products under chapter 48.17 RCW is not required to make a sale of an extended warranty or a maintenance agreement. Because the preferential B&O tax rate provided by RCW 82.04.260 applies only with respect to activities requiring a license under chapter 48.17 RCW, commissions received for selling extended warranties and maintenance agreements are subject to the B&O tax under the service and other activities classification.

(d) When a warrantor purchases an insurance policy to insure itself against its obligations under a warranty, amounts received by the warrantor from the insurance company in payment of claims are a nontaxable insurance claim reimbursement.

(4) **Warranties.** This subsection addresses tax obligations arising under warranties for which no separate charge was made. Refer to subsections (5) and (6) for an explanation of tax obligations under extended warranties.

(a) When no separate charge is made for a warranty, the value of the warranty is included in the selling price of the tangible personal property. When the property is sold to a consumer, retail sales tax will apply to the entire selling price, unless an exemption from the retail sales tax applies. The value of the warranty is included in the gross proceeds of sales and reported under the appropriate B&O tax classification (retailing, wholesaling).

(b) When the warrantor provides warranty services for which no separate charge was made pursuant to a warranty, the warrantor is not subject to B&O tax on the value of the warranty services nor does the warrantor owe retail sales or use tax on parts used in accomplishing the repair. However, if a reduced charge is imposed, the reduced charge is

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subject to retailing B&O tax and retail sales tax must be collected, unless an exemption applies.

(c) If a third party performs warranty services, the third party is performing a wholesale service for the warrantor and should take a resale certificate from the warrantor to document the wholesale nature of the transaction. See WAC 458-20-102. The third party must report the gross income from the repair under the wholesaling B&O tax classification. The third party does not owe retail sales or use tax on parts incorporated into the tangible personal property being repaired.

(d) If the warrantor charges a consumer covered by a warranty a reduced charge for the warranty service and the reduced charge is collected and retained by a third party, the third party should report its income as specified in example (8)(f), below.

(5) **Extended warranties on or after July 1, 2005.** This subsection addresses tax obligations arising on or after July 1, 2005, under extended warranties regardless of when the extended warranty was purchased.

(a) **Sales of extended warranties by warrantors.** Retailing B&O and retail sales tax apply to the sale of an extended warranty to a consumer on or after July 1, 2005. Wholesale sales of extended warranties are subject to the wholesaling B&O tax, provided the warrantor documents the wholesale nature of the transaction as explained in WAC 458-20-102 (Resale certificates). Retail sales tax applies to all sales to consumers of extended warranties even if the underlying property is exempt from retail sales or use tax.

(b) **Sales of extended warranties by third parties.** Commissions received by third parties selling extended warranties for the warrantor are subject to the B&O tax under the service and other activities classification.

(i) In addition to reporting commission income under the service and other activities B&O tax, the third party seller must also report the gross selling price, without deduction for the commission, under retailing or wholesaling B&O tax. A deduction is then taken against the retailing or wholesaling B&O tax for the same amount. The net effect is that the B&O tax will apply only to the commission income of the third party. Further, if the sale was to a consumer, the third party must collect the retail sales tax on the gross selling price for the extended warranty and remit the retail sales tax to the department.

(ii) The warrantor must report the gross selling price (without deduction for the commission retained by the third party seller) under the appropriate B&O tax classification; and if the sale was at retail, then the warrantor must report the retail sales tax and take a deduction for the retail sales tax remitted by the third party seller.

(c) **Place of sale.** A sale of an extended warranty takes place where the customer receives the written extended warranty or other documentation confirming the purchase of the extended warranty.

(d) **Warranty services provided under an extended warranty.**

(i) When the warrantor provides the warranty service on or after July 1, 2005, there is no B&O tax liability unless there is a reduced charge applicable to the warranty service. If a reduced charge is applicable, then the warrantor is engaging in either retailing or wholesaling activities, and the appropriate B&O tax is due. In addition, if the reduced charge is a sale at retail, then retail sales tax must be collected unless the warranty service is exempt from retail sales tax. For example, warranty service



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consisting of the repair of equipment that qualifies for the manufacturing machinery and equipment (M&E) exemption provided by RCW 82.08.02565 is exempt from retail sales tax. See WAC 458-20-13601 for more information concerning the M&E exemption. But as noted above, the sale of the extended warranty covering equipment that qualifies for the M&E exemption is not exempt from retail sales tax.

(ii) When the warrantor contracts with a third party to perform the warranty services and those services are performed on or after July 1, 2005, the warrantor should give the third party a resale certificate to document the wholesale nature of the transaction. It does not matter whether the warrantor sold the warranty before, on, or after July 1, 2005. The third party will be subject wholesaling B&O on the entire charge for the warranty services. If there is a reduced charge and the third party collects the reduced charge from the consumer, then retail sales tax applies to the reduced charge and should be collected with the reduced charge.

The third party providing the warranty services and collecting the reduced charge should report as follows. The warranty services are subject to wholesaling B&O tax and the measure of tax is the sum of the payment from the warrantor and the reduced charge collected from the consumer. Because the third party collected the retail sales tax, it must remit the retail sales tax to the department. Thus, the third party must also report the reduced charge under both retailing B&O tax and retail sales tax, with a deduction against the retailing B&O tax for the amount of the reduced charge.

(e) **Use tax.** (i) The consumer of an extended warranty acquired on or after July 1, 2005, on which retail sales tax has not been paid to the seller, is responsible for remitting the retail sales tax (commonly referred to as “deferred sales tax”) or use tax directly to the department. Use is defined as exercising dominion and control over the article of tangible personal property to which the extended warranty applies. The measure of the use tax is the purchase price of the extended warranty. If the extended warranty was received as a gift or under circumstances where the purchase price does not represent the true value of the extended warranty, then the measure of the tax is determined by the retail selling price of similar extended warranties at the location of first use in this state.

(ii) If a reduced charge is imposed on a warranty service performed on or after July 1, 2005, and the consumer has not paid retail sales tax measured by the reduced charge, then the consumer owes deferred retail sales or use tax measured by the reduced charge unless the warranty service is exempt from retail sales or use tax (e.g., repair of equipment that qualifies for the M&E exemption).

**(6) Extended warranties on or before June 30, 2005.** This subsection addresses tax obligations arising, on or before June 30, 2005, under extended warranties. This subsection does not apply to activities occurring on or after July 1, 2005, even if the extended warranty was purchased on or before June 30, 2005.

**(a) Sales of extended warranties.**

(i) B&O tax applies to the gross selling price of an extended warranty sold on or before June 30, 2005, under the service and other activities classification. No deduction is allowed for commissions paid to third parties selling the extended warranty.

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(ii) If an extended warranty was sold by a third party, then the commission or other remuneration received by the third party is subject to the B&O tax under the service and other activities classification.

**(b) Warranty services performed by the warrantor on or before June 30, 2005, under extended warranties.**

(i) When the warrantor under an extended warranty performed warranty services on or before June 30, 2005, the warrantor did not owe B&O tax on the warranty service unless a reduced charge was received. If a reduced charge was received, then the warrantor was liable for retailing B&O tax and collecting retail sales tax from the consumer. However, if the consumer was exempt from retail sales tax on the warranty service (i.e., the warranty service was exempt under the M&E exemption) and proper documentation is provided to the warrantor, then retail sales tax did not apply.

(ii) The warrantor owed retail sales tax or use tax on parts used in performing warranty services.

**(c) Warranty services performed by third parties on or before June 30, 2005.** Unless the warrantor sells the warranty services provided by the third party at wholesale, then the entire charge to the warrantor was subject to retail sales tax, and the party performing the service was liable for retailing B&O tax.

If there was a reduced charge, the measure of the retail sales tax and retailing B&O tax is the sum of the payment from the warrantor and the reduced charge from the consumer of the warranty services.

**(7) Maintenance Agreements.**

(i) The sale of a maintenance agreement is subject to wholesaling B&O tax if purchased for resale (and the seller properly documents the wholesale nature of the transaction as provided in WAC 458-20-102) and retailing B&O tax if sold to a consumer. Retail sales tax applies if sold to a consumer, unless the sale is exempt from tax. For example, the sale of maintenance agreements for equipment qualifying for the M&E exemption is exempt from retail sales tax (see Rule 13601). This tax treatment differs from the sale of an extended warranty on or after July 1, 2005, which is subject to retail sales tax even if the sale of the property covered by the warranty is exempt.

(ii) If the obligor under a maintenance agreement contracts with a third party to perform the actual maintenance services, then the third party is performing a wholesale service for the obligor and should take a resale certificate or retain other documentation demonstrating the wholesale nature of the transaction. See WAC 458-20-102.

(iii) If the maintenance agreement is sold by a third party and the third party receives a commission, then the commission is subject to the B&O tax under the service and other activities classification. The third party must also report the gross selling price, without deduction for the commission, under retailing or wholesaling B&O tax and then take a deduction against the retailing or wholesaling B&O tax for the same amount. The net effect is that the B&O tax will apply only to the commission income of the third party. Further, if the sale was is to a consumer, the third party must collect the retail sales tax on the gross selling price for the extended warranty and remit the retail sales tax to the department.

The warrantor must also report the gross selling price (without any deduction for the commission retained by the third party) of the maintenance agreement under the



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retailing or wholesaling classification and, if the sale is a retail sale, report the retail sales tax with a deduction for the tax remitted by the third party. For wholesale sales, the warrantor must retain a resale certificate or other proper documentation establishing the wholesale nature of the transaction. See WAC 458-20-102.

**(8) Examples:**

(a) An automobile dealer sells a vehicle to a customer for a selling price of \$15,000 cash, and the selling price includes a manufacturer's limited warranty for 5 years or 50,000 miles. The owner of the vehicle has \$600 (\$200 parts and \$400 labor) worth of warranty service, paying no reduced charge. The warranty service was performed by the dealer who is not the manufacturer-warrantor, and was paid for by the manufacturer-warrantor. The dealer removed the \$200 worth of parts from its inventory. The tax liability of the dealer is as follows:

(i) Retail sales tax is collected on the \$15,000 selling price.

(ii) The \$15,000 selling price is reported under the retailing B&O tax classification. The \$600 warranty service is reported under the wholesaling B&O tax classification. The dealer should obtain a resale certificate from the manufacturer-warrantor to document the wholesale nature of the transaction. See WAC 458-20-102.

(iii) The \$200 of parts used in the repair is not subject to use tax.

(b) The automobile dealer in example (a) also sells its own extended warranty to the customer for \$200. The dealer insures itself with an insurance carrier, and under the policy claims are paid on the retail value of the warranty services. In addition to the warranty services in example (a), the customer has the dealer complete \$500 worth of warranty services under the dealer's extended warranty. The customer paid a \$100 reduced charge, and the dealer received \$400 from its insurance carrier. In completing the warranty services, the dealer installed parts from its inventory which had a cost to the dealer of \$150 and performed labor valued at \$150. Additionally, the dealer subcontracted part of the warranty services to an electrical shop which charged the dealer \$200.

(i) If all of the above listed activities occurred on or before June 30, 2005, then the tax liability to the dealer and the subcontractor are as follows:

(A) The dealer reports the \$200 sale of the extended warranty under the service and other activities B&O tax classification. No retail sales tax is collected on the sale of the extended warranty.

(B) The \$100 reduced charge received by the dealer is a retail sale subject to retail sales tax and retailing B&O tax.

(C) The \$400 received by the dealer from the insurance company is a nontaxable insurance claim reimbursement.

(D) The dealer is the consumer of the parts removed from its inventory and used in the repair. The \$150 dealer cost of the parts taken from inventory is subject to deferred sales tax or use tax.

(E) The subcontractor is making a retail sale to the dealer. The \$200 received by the subcontractor is subject to retail sales tax and retailing B&O tax.

(ii) If the extended warranty was sold on or before June 30, 2005, and the warranty services were performed on or after July 1, 2005, then the parties' tax liabilities related to the extended warranty are as follows:

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(A) The dealer reports the \$200 sale of the warranty under the service and other activities B&O tax classification. No retail sales tax is collected on the sale of the extended warranty.

(B) The \$100 reduced charge received by the dealer is a retail sale subject to retailing B&O tax, and the dealer must collect retail sales tax from the customer.

(C) The \$400 received by the dealer from the insurance company is a nontaxable insurance claim reimbursement.

(D) The dealer does not owe deferred sales tax or use tax on the parts removed from inventory, regardless of when the parts were purchased.

(E) The subcontractor is making a wholesale sale to the dealer and should take a resale certificate documenting the wholesale nature of the transaction. See WAC 458-20-102.

(iii) If the extended warranty was sold on or after July 1, 2005, then the tax consequences are the same as in Example (b)(ii) above except that the charge for the extended warranty (\$200) is subject to retailing B&O tax, and retail sales tax must be collected from the customer.

(c) A computer manufacturer and retailer sells computers by providing customers with base models and allows the customer to select or deselect certain options. The price increase or decrease is clearly identified to the customer at the time of selection. The computer manufacturer then installs or uninstalls the options per the customer's order and ships the computer to the customer. The manufacturing activity occurs outside of Washington. The shipping documents identify all the options selected or deselected, but only show the total price for the computer as configured. Assume the customer configures a computer which has a total price of \$2,100. Then the customer selects an extended warranty for an additional charge of \$600 and a maintenance agreement for \$300. The tax reporting responsibilities of the computer manufacturer are as follows:

(i) If the sale occurred before July 1, 2005, retailing B&O tax and retail sales tax on \$2,400 (\$2,100 for the computer and \$300 for the maintenance agreement); and service and other activities B&O tax on \$600.

(ii) If the sale occurred on or after July 1, 2005, retailing B&O tax and retail sales tax applies on the entire selling price of \$3,000 for the computer, maintenance agreement, and extended warranty.

(d) Assume that the extended warranty, in example (c) above, was sold by the computer manufacturer as agent for a third party warrantor, and the computer manufacturer retains a 60% commission on the sale.

(i) If the sale occurred on or before June 30, 2005:

(A) The tax reporting responsibility of the computer manufacturer is as follows: Retailing B&O and retail sales tax on \$2,400 (\$2,100 for the computer and \$300 for the maintenance agreement); and service and other activities B&O tax on its commission income of \$360.

(B) The tax liability of the warrantor would be service and other activity B&O tax on the full charge for the extended warranty (\$600).

(ii) If the sale occurred on or after July 1, 2005, the tax liabilities are as follows:

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(A) Computer manufacturer: Retailing B&O tax and retail sales tax on \$3,000 and a retailing B&O tax deduction of \$600 for sales as agent; and service and other activities B&O tax on its commission of \$360.

(B) Warrantor will report \$600 subject to retail sales tax and retailing B&O tax, and will deduct \$600 from the measure of the retail sales tax based on the remittance by the computer manufacturer ("paid by agent").

(e) Assume that Company A sells equipment to a manufacturer that qualifies for the M&E exemption. The purchase price of the equipment is \$1,000 and includes a 90-day warranty against defects in materials and workmanship. Further, assume that the manufacturer also purchases a maintenance agreement for an additional \$300 and an extended warranty for an additional \$200. Assuming that the manufacturer provided the seller the necessary documentation for the M&E exemption and the sale took place on or after July 1, 2005, the tax consequences are: Company A is subject to retailing B&O tax on the total selling price (\$1,500). The purchase price (\$1,000) and the maintenance agreement (\$300) are exempt from retail sales tax. The \$200 for the extended warranty is subject to retail sales tax (extended warranties do not qualify for the M&E exemption); and the warranty included in the selling price (90 day warranty) is not subject to additional tax.

(f) Assume an out-of-state manufacturer of tangible personal property warrants its products subject to a \$25 per warranty service reduced charge. Further, manufacturer establishes a nationwide network of persons who are authorized to provide warranty services for the manufacturer. The warranty service providers collect and retain the \$25 reduced charge and reduce their charges to the manufacturer by the \$25. Further, assume that "B" purchases manufacturer's product from "A" in Washington at a selling price of \$1,000. B needs warranty services and those services are provided by "C" in Washington. C bills manufacturer \$150 for the warranty services and credits that charge for the \$25 received from B. The tax consequences of each party are as follows:

A -- Retailing B&O tax on the selling price (\$1,000) and must collect and remit to the department retail sales tax on the sale.

B -- Retail sales tax must be paid to both A on the original purchase and to C on the reduced charge (\$25).

C -- Wholesaling B&O tax on the entire \$150 charge for the warranty service (\$125 from the manufacturer plus \$25 from B); retailing B&O tax and retail sales tax on the reduced charge paid by B with a like deduction against the retailing B&O tax.

Manufacturer -- Retailing B&O tax and retail sales tax on the reduced charge (\$25) with a deduction against retail sales tax for the tax paid by C.

[Statutory Authority: RCW 82.32.300. 90-10-081, §458-20- 257, filed 5/2/90, effective 6/2/90.]